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Department for Professional Employees, AFL-CIO

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December 3, 2002

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Ms. Marlene Dortch
Secretary
Federal Conimunications commission
445 12th Street, S.W.
Washington D.C. 20.554

Dear Ms. Dortch:

RE: Ex Parte Notice
MB Docket **Nos. 02-277, 01-235, 01-317, 00-244**
In the **matter of 2002** Biennial regulatory **Review—**
Review **of** the **FCC** Broadcast Ownership Rules and other rules adopted pursuant to Section **202 of** the Telecommunications Act **of 1996** including cross-ownership **of** newspapers and broadcast stations, rules and policies concerning multiple ownership **of** radio and television broadcast stations in local markets, dual network ownership restrictions and other media ownership regulations.

On this date, representatives of the AFL-CIO, the Department of Professional Employees (DPE) of the AFL-CIO, and affiliated unions met with Mr. Jordan Goldstein and Ms. Alexis Johns of Commissioner Copps' staff to brief them on a rccently published analysis and critique of the FCC studies relating to the above-captioned proceedings.

Representatives of these organizations which attended this meeting were: Debbie Goldman of the Comniunications Workers of America; Tom Carpenter of the American Federation of Television and Radio Artists (AFTRA), John Contrubis of Writers' Guild of America, East; Paul E. Almeida and Mike Gildea of the Department of Professional Employees, AFL-CIO; Joel Yudken, AFL-CIO; and Dean Baker of the Center for Economic Policy and Research.

During the course of the discussion we provided the Commissioner's staff with copies of the critique authored by Mr. Baker entitled *Democracy Unhinged: More Media Concentration Means Less Public Discourse...A Critique of the FCC Studies nn Media Ownership.* That study is appended to this correspondence.

Sincerely,

Michael W. Gildea

Michael W. Gildea
Executive Director

No. of Copies rec'd
List ABCDE

Enclosure

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DEMOCRACY UNHINGED

More Media Concentration Means Less Public Discourse

A Critique of the FCC Studies on Media Ownership

Dean Baker, Co-Director
Center for Economic *and* Policy Research

Department for Professional Employees, AFL-CIO

Sponsored by: American Federation of Television and Radio Artists, The Newspaper Guild-Communications Workers of America, and Writers Guild of America-East

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FOREWORD

On September 12 the Federal Communications Commission (FCC) initiated its third Biennial Review of broadcast ownership rules. In so doing, it announced a Notice of Proposed Rulemaking (NPRM) consolidating what had been three separate proceedings into a single regulatory assessment for all of the agency's broadcast ownership rules. This proceeding was recently described by FCC Chairman Michael Powell as "the most comprehensive look at media ownership ever undertaken by the FCC."

The six rules that are now the subject of this massive regulatory review are:

- The Newspaper/Broadcast Cross-Ownership Prohibition
- Local Radio Ownership
- National TV Ownership
- Local TV Multiple Ownership
- Radio/TV Cross-Ownership Restriction
- Dual Television Network Rule

Prior to the commencement in 2001 of earlier separate rule-makings on two of these regulations, Chairman Powell late in the year announced the creation of an internal FCC Media Ownership Working Group to examine the media marketplace for the expressed purpose of broadening the Commission's understanding of this industry. Soon after, the FCC Working Group commissioned a series of studies by internal and external authorities which, according to Powell, represented "an unprecedented data gathering effort to better understand market and consumer issues so that we may develop sound public policy."

On October 1, 2002--less than three weeks after the announcement of the consolidated rule-making-- the Commission released 12 empirical studies which, according to an FCC press release, purported to have "examine[d] the current state of the media marketplace, including how consumers use the media, how advertisers view the different media outlets, and how media ownership affects diversity, localism and competition." In releasing the reports, the FCC reaffirmed its interest in seeking public input about them. The FCC studies can be found at ***http://www.fcc.gov/ownership/studies.html***

The document which follows is an analysis and critique of several of the FCC studies. Written by Mr. Dean Baker, Co-Director of the Washington D.C.-based Center for Economic and Policy Analysis, this evaluation was commissioned by the AFL-CIO Department for Professional Employees (DPE) and three of its affiliated media industry unions—the American Federation of Television and Radio Artists, The Newspaper Guild, CWA and the Writers Guild of America, East. This document will be formally submitted to the FCC along with other commentary on the pending rules by the AFL-CIO as part of the FCC's Public Comments process.

Executive Summary

The FCC's re-evaluation of a series of rules limiting concentration in the media industry has raised several important policy issues. Specifically, several interested parties have raised the question of whether the relaxation of these rules will:

1) Reduce the variety of opinions presented to the public;
2) Reduce the coverage of news and public affairs;
3) Limit the variety of programming available to the public;
4) Reduce coverage of local issues;
5) Limit the ability of individuals and organizations to use advertising to present their views to a larger audience;

The FCC recently released a series of studies that attempt to address some of these issues. This study examines the evidence in these studies and assesses its implications for this set of questions. This analysis finds that:

1. One of the FCC studies (Waldfogel, 2002, Study #3) shows that there is very little substitution between types of media as sources for news. In fact, it shows that most media appear to be complements, which means that if individuals receive less news from one source, they are likely to receive less news from all other sources.

   This study also noted evidence from an earlier study by the same author, which found that individuals tended to substitute the ***New York Times*** for their local newspaper. **This** led individuals to be less informed about local affairs, leading to declining voter participation by college graduates in local elections. ***This*** patterns suggests the sort of unintended consequences that may result from substitutions between news sources.

2. One study (Cunningham and Alexander, 2002, Study **#6)** presents a theoretical model which predicts, that for a wide range of consumer responses, greater media concentration will lead to an increase in the portion of broadcast material devoted to paid advertisements. This model also predicts that consumers will respond to an increase in the portion of broadcast time devoted to ads, by consuming less broadcast media.

3. Another study (Williams et al., 2002, Study #9) found evidence that there **has** been a decrease in the diversity of songs broadcast on radio stations nationwide since rules on ownership were relaxed in 1996. While the decline found in this study was limited, given the difficulty of measuring diversity, it is striking that it was able to find statistically significant evidence of such a decline.

2. A study that examined the quality of local news broadcasts on network owned stations with network affiliates (Spavins et al., 2002, Study #7) neglected to examine trends in news quality through time. While the study found that the news quality of the network owned stations was at least as good as independent affiliates during the time period examined, this is not inconsistent with a situation in which competitive pressures from concentration lead to a general deterioration of news quality through time. The study also did not control for factors, such as the age of a station, which may have been related to the quality of its news coverage, independent of its ownership status.

3. A study that assesses the extent to which individuals substitute between media for news, finds that responses to survey questions suggest a substantial degree of substitution (Nielson Media Research, 2002, Study #8). This study also finds that individuals expect to increase the amount they use nearly all media for news. These answers are inconsistent with recent patterns of declining news usage. Therefore, it is reasonable to treat these survey results with suspicion.

   While individuals may report to a questioner that they intend to exercise more in the future, this does not necessarily mean that they actually will exercise more. Similarly, their responses that they will readily shift to another media for news, if they lose access to their current source, does not mean that this will necessarily be the case. The Waldfogel study of how individuals actually ***do*** substitute between media for news sources should be seen as a better guide to behavior than this survey's findings on how they *say* they will substitute.

In sum, the FCC's studies provide evidence that last two decades have seen less growth in the number of radio stations and other media outlets. They also provide evidence that the relaxation of ownership rules for radio stations in **1996** led to less diversity in the songs played on the radio nationwide. In addition, they indicate that there is relatively little substitution between media for news. These, and other, findings suggest that further concentration in the media may limit diversity in the new and entertainment carried by the media. The studies also found that there was a rapid run-up in radio advertising prices in the six years since the relaxation of rules restricting concentration, which suggests that greater concentration may lead to still higher rates for advertisers in the future.

Concentration and Diversity in the Media: What the FCC Studies Show

Introduction

The Federal Communication Commission (FCC) is currently considering the relaxation or elimination of a series of restrictions on concentration in the media. These restrictions include:

1) limits on cross-ownership between local television stations and newspapers;
2) limits on cross-ownership between local radio stations and newspapers; and
3) restrictions on mergers or other combinations of television broadcast networks.

These restrictions were originally put in place to try to ensure that the public would be presented with a wide range of programming content, an adequate supply of news and information, and a diverse set of political views that would allow for an informed citizenry. The need for these restrictions stemmed both from concerns over the abuse of market power that can occur in any industry where a small number of firms dominate the industry, and features peculiar to the broadcast industry which can favor concentration.

Specifically, the broadcast industry depends for its existence on the government's grant of exclusive control over a scarce resource – broadcast frequencies. The federal government opted to parcel out the airwaves by granting exclusive control over a broadcast frequency for long periods of time to a single corporation. This method was chosen over other possible alternatives, such as having broadcast stations run as common carriers, with time periods given out through auction or lottery. The method chosen by the government raises the risk of a government supported monopoly, which is not present in other industries. For this reason, Congress has recognized a special responsibility to ensure that the industry served a general public interest, and not just the private interests of media corporations. This has been an explicit concern of the FCC since its inception, and was the motivation for these and other restrictions on the media's conduct.

The FCC has been mandated to review these rules biennially by the 1996 Telecommunications Act and by a few recent court decisions. **Also,** the development of new technologies, such as the Internet, and the spread of cable and satellite television have increased the available alternatives to broadcast frequencies and thereby give rise to a reevaulation of the continued need for these rules. Given these, and other, developments in the media industry, it is reasonable to question whether current restrictions on concentration still **serve the public** interest.

In November of 2001, the FCC commissioned a set of studies to provide insight on some of the issues raised by increased concentration in the media industry. These studies have generally been interpreted as supporting the view that the restrictions in question are no longer necessary, television stations in a context where such combinations are generally prohibited by the FCC does not necessarily indicate how such combinations would behave in the absence of FCC oversight, just as the fact that drivers don't speed in front of a police car doesn't mean that drivers don't speed. Similarly, comparing the quality of news in network owned stations with the quality of news on affiliates reveals little about the impact of network ownership. The relevant question is whether the competitive pressures created by greater consolidation may lead all stations, both network owned and independently owned affiliates, to devote fewer resources to new coverage.

In some cases, the evidence can be used to show the opposite of what is suggested by the summaries. For example, in nine of the ten selected radio markets reviewed in Roberts et al., 2002 (Study #1), the growth in the number of stations and owners slowed substantially in the last twenty years compared with the period from 1960-1980. The decline in diversity of playlists across radio markets (Williams et al., 2002 (Study #9)), also suggests a reduced demand for new songs, with a smaller number of songs getting broadcast across the nation, as the ownership of radio stations becomes more concentrated. In addition, it is likely that a substantial portion of the 68 percent real increase in radio ad prices between 1996-2001, noted in Brown and Williams, 2002 (Study #4), is attributable to the increased concentration in the industry.

This paper examines the evidence presented in these studies. While there is much valuable data that can provide guidance to the FCC in its assessment of rules limiting concentration, it is important that the FCC commissioners and other interested parties fully appreciate the nature of the evidence presented in these studies.

The first section briefly examines the predicted theoretical impact of greater media concentration. The second section of this paper examines the evidence in these studies on the impact of ownership concentration and cross ownership between newspapers and television stations on the quality and diversity of the news presented on local broadcast stations. The third section examines the evidence that consumers readily substitute across media for news and entertainment. The fourth section examines the evidence on trends in concentration in radio and the impact on the diversity of station content, as well as advertising prices. The fifth section summarizes the prior sections and notes important questions concerning the impact of concentration that have not been adequately addressed by these studies.

Section 1: The Theoretical Impact of Greater Concentration

One of the FCC studies (Cunningham and Alexander, 2002, Study #6) constructs a theoretical model to predict the impact of greater concentration in broadcast media. This model is an advance on earlier theoretical work on this topic since it does not restrict itself to a two firm market and also because it does not include an explicit assumption that advertising provides disutility. The model assumes **only** that advertising raises the cost ofconsuming non-

Moreover, it is inaccurate to report, as this study does, that these media combinations could have reasonably hoped to influence the outcome of the presidential race with their reporting. Seven of the ten combinations examined were in states in which the winner had a margin of more than 10 percentage points (California, Connecticut, Illinois, New York [2], North Dakota, and Texas). Only two of the combinations were in states where the margin was less than 5 percentage points (Florida and Wisconsin).

It may have been more interesting to look for differences in the coverage of issues that were more directly linked to the profitability of the station owners. The coverage of the FCC rules currently being debated would be an excellent example. **Also,** the study could have looked for differences in the coverage of issues that could have a significant impact on the profitability of major advertisers. For example, it would be interesting to see if coverage of the proposed changes in personal bankruptcy laws by newspaper television combinations may have been affected by the fact that credit card companies are major advertisers on broadcast television. The coverage of minimum wage laws may provide another interesting example, since fast food franchises (which are significantly affected by minimum wage laws) are major advertisers on television.

The list of topics where it would have been interesting to look for statistically significant differences in reporting is obviously quite long. But it clearly would be a better test to take an issue that more directly affected the financial interests of the media companies in question, than the outcome of the 2000 presidential race.

At the most basic level, this study is suspect because it is examining the conduct of cross-ownership combinations in a context where the FCC has granted special exemptions to a general rule. In principle, these exemptions could be re-examined, possibly leading to the breakup of the combinations. In other words, it is reasonable to assume that the companies involved are aware that their behavior is being monitored. It is also reasonable to assume that they would view the elimination of independence of the news operations of the television station and newspaper as a move that could lead to serious scrutiny of their combination by the FCC.

In short, it is problematic to infer much about the behavior of newspaper-broadcast combinations in general, based on their behavior in a period where they are operating under the scrutiny of the FCC. This would be comparable to concluding that drivers do not speed, based on the fact that they stay within the limit when a police car is setting the pace on the highway.

Spavins et al.. *2002* (Study #7)

The second study that examined the impact of ownership concentration on news quality (Spavins et al., 2002, Study #7) also suffers from basic design problems. This study compared the quality of local news shows on network owned stations and network affiliates by a series of objective measures, including viewership ratings, news awards and weekly hours of news. It

These factors could have been tested by running a regression using the same variables in this analysis, covering a period of twenty or thirty years, that included dummy variables for stations in the years after they had been purchased by a network or a newspaper company. The coefficients of these dummy variables would reveal whether there was a statistically significant change in the quality of news coverage after the station had been purchased by a network or newspaper company.

Regression analysis would also explain whether other factors could explain the apparent superiority of news coverage on network owned stations or newspaper owned affiliates. For example, it is possible that these are simply older more established stations, and older stations tend to have better news coverage. A regression that included an age variable would make it possible to determine whether the superiority of news coverage, on network owned stations and newspaper owned affiliates still held true when the age of the station was taken into account.

In conclusion, both of the studies that seek to directly address the impact on news coverage of ownership concentration and cross-ownership of newspapers and television stations suffer from serious flaws in design and methodology. They provide very little evidence which can be useful to the FCC in assessing the rules in these areas.

Section 3: Evidence of Consumer Substitution Across Media

The FCC commissioned two studies which sought to examine the extent to which consumers substitute across different media for news and general entertainment. Waldfogel (2002, Study #3) used a series of measures of usage of different media to determine the extent to which the increased availability and/or usage of one type of media led to changes in the usage of other media. Nielsen Media Research (2002, Study #8) presents the results of an extensive consumer survey on attitudes towards media and the extent to which consumers view them as substitutes.

The issue of substitution across media is directly relevant to the FCC's assessment of current rules, since concentration in one type of medium is of less concern if consumers can readily move to another medium. In other words, it would be of little concern if there was heavy concentration in television ownership, if consumers viewed the Internet as an equally good source of news and entertainment. Therefore, it is important for the FCC to have some idea of the extent to which consumers can switch between media, when it makes its decision on the rules limiting concentration in specific media.

Waldfogel, 2002 (Study #3)

The evidence presented in Waldfogel 2002 (Study #3) is that there clearly is some substitution between media, but it is far from complete. As the study points out in the executive summary: "If substitution were complete, then the decline of local daily newspapers would be offset by the increased use of other media. The civic behaviors affected by media consumption

(Table 13, Part II). The relationships found in this table are reproduced in Table 1 below, with a negative sign indicating that the two mediums are substitutes, and a positive sign indicating a significant positive relationship between the two media.

Table 1
The Relationship Between News Usage From Different Media

	TV-News	Radio News	Internet News	Daily Paper	Cable News
TV News	--	+	-	+	+
Radio News	+	--	+	+	+
Internet News	-	+	--	+	+
Daily Paper	+	+	+	--	+
Cable News	+	+	+	+	--

Source: Waldfogel, **2002, Table 13,** Pan **II, s i p s indicate significance** 10 **percent confidence level (some *are* significant at a 5 percent level).**

The significant positive coefficients in *this* table suggest that people who get more news from one source such as television, are also likely to get more news from a second source, such as a daily newspaper. It is important to remember that this regression controls for obvious determinants of news use, such as income and education. These positive coefficients raise an interesting issue. It may be the case that people who follow news from a variety of sources are simply news junkies for reasons that have little to do with their access to news. Alternatively, it may be the case that exposure to news in one medium tends to increase individuals' interest in news generally, leading them to use more news from all form of media. In the latter case, reduced access to news in any medium could lead consumers to get significantly less news generally, as they would be less likely to seek out news from other media. This possibility, suggested by the evidence in this study, certainly deserves further investigation.

Table 18 of the study provides a useful ***summary*** of the results of the various tests. The table lists all the cases in which there **is** statistical evidence of substitution between different media. The vast majority of the boxes are empty, indicating that none of the 11 different tests found any evidence of substitution. **(All** forms of substitution were not measured in each test.) Furthermore, the table would show considerably less support for substitution if it only showed instances in which the test results meet standard levels of statistical proof. In 8 of the **34** cases where the table indicates evidence of substitution, the standard was that the t-statistic was greater than 1.

There is one other point worth noting about even the limited evidence for substitution between media found in this study. It may be the case that some sub-groups of the population (e.g. more educated and higher income people), can more easily substitute between television and the Internet than other groups (e.g. older and less educated people). Before assuming that the Internet can in general provide a substitute for diminished diversity or news in television broadcasts, it would be helpful to know the extent to which this relationship holds for different

However, there is basic problem with inferring substitution behavior based on these survey results. The respondents are reporting how they think they would behave, not necessarily how they actually would behave. This runs into a problem in that people may think they will behave in a manner that is different from how they will actually behave, given the circumstances described.

Fortunately, the survey includes a set of questions that sheds light on this issue, suggesting that respondents are in fact answering how they hope they will behave, rather than indicating how they actually would behave. For each of type of media covered in the survey respondents were asked the question "in the future, for local or national news and information about current affairs, would you say you expect to use [medium listed below] more often, less often or about the same as you do today?

Table 2 below shows the response *to* this question for each form of media, along with the percentage of respondents who said that they had used each one as a news source in the last seven days.[2]

Table 2
Expected Changes in Usage for News

	More Often	Less Often	Same	Current Usage
TV-broadcast	18.2	5.7	75.2	59.8
TV-cable	21.8	8.5	68.2	52.2
Daily newspaper	15.8	9.4	74	56.4
Radio	15.2	9.5	74.8	35.3
Weekly newspaper	10.1	15.7	72.5	24.2
Internet	24.7	16.4	54.5	18.8
Magazines	5.3	24.4	67.6	6.4

Source: Nielson Media Research, 2002, Tables 001, 007. 008. 070476.

As can be seen from the table, respondents expect on net to substantially increase their news usage from five of the seven forms of media about which they were asked. This includes the four types of media that are most widely used as news sources at present. They only expect to decrease usage of weekly newspapers and magazines, which is already by far the least used news source in the group. In short, if these answers are taken at face value, it implies that news consumption is increasing rapidly and will continue to increase for the foreseeable future.

[2] The percentage of daily and weekly newspaper readers was determined by taking the percentage of people that had answered they had read a newspaper in the past seven days in Table 001, and multiplying this by the percent of this group that identified themselves as either reading a daily or weekly newspaper, or both in Table 007. This same process was used to divide television usage between broadcast and cable, using the data in Table 001 and Table 008.

In spite of the responses shown in the table, it is unlikely that news usage will substantially increase in the near future. This would imply a substantial turn around from the past for most forms of media. More likely, the individuals who are answering these questions are probably basing their answers on what they would like to imagine themselves as doing, as opposed to what they actually will do. This can be seen as analogous to a survey that asked whether people intend to do more or less of a variety of exercises in the future (e.g. running, walking, bicycling). While the respondents may honestly expect that they will exercise more in the future than in the past, unless there is currently an upward trend in exercising, it is reasonable to assume that this is simply wishful thinking. In this case, people may hope that they will follow news more closely in the future, but recent trends in news use indicate that this is not likely to be the case.

This point is important in the context of the set of questions that asked respondents about their willingness to substitute between mediums for news (Tables 021-069). The answers shown in these tables indicate how respondents hope that they will behave. The data shown in Waldfogel (2002) probably gives a more accurate picture of how they actually will behave. As noted above, substitutions between media for news appear to be very limited when observed in practice. These observations of actual behavior provide a more reliable guide for policy than surveys in which respondents indicate how they think they would behave.

In conclusion, the two studies that address the issues of substitution between media as a source of news indicate that there is relatively limited substitution between different types of media. The Waldfogel study, which examined actual behavior, only found statistically significant evidence of substitution in the case of Internet and television usage. In the case of other types of media, the study found that, if anything, greater usage of one form of media for news was associated with greater usage of other forms, implying that a reduction in access to news in any medium could lead to a reduction in news usage. The survey conducted by Nielson Media Research (NMR) indicates that people say that they will substitute relatively easily between different media for news sources, but it also indicates that people say they will follow news much more closely in the future than they have in the past. Since most forms of news usage are decreasing rather than increasing, it would be dangerous to infer much about people's willingness to substitute between media for news sources based on their answers in this survey.

To put the difference between these studies somewhat crudely, the Waldfogel study looks at what people do, the NMR study looks at what people say they will do. Economists usually prefer looking at what people do. This prejudice is supported in this particular case by the fact that people are clearly not doing what they say they will do in the NMR survey – increasing news usage. Therefore, it is reasonable to conclude that the findings of the Waldfogel study – that there is relatively little substitution between media as a news source – is probably the more accurate view of media usage.

growth rate had been maintained, instead of the **53** media outlets it actually had in 2000. The 1960-80 growth rate would have given Myrtle Beach **81** outlets and **43** owners in **2000,** instead of the **38** outlets and **23** owners that it actually had as of 2000.

This study provides solid evidence that the growth rate in both the number of media outlets and owners has slowed sharply over the last two decades. **As** noted above, the failure of the study to include the years in which there were major changes in ownership rules makes it impossible use its data to determine the extent to which the slower growth may have been attributable to the change in these rules. However, it is clear that the growth slowdown has coincided with these changes.

It also would have been useful if this study included data on market shares. The number of outlets may provide little information about the range of choices available to consumers. If a small number of outlets **are** able to dominate the market, the availability of a large number of very small outlets could mean little to either consumers or advertisers. Unfortunately, **this** study provides no information on market shares. It also does not provide break-out the trends in radio and television stations, instead lumping them together under the category of broadcast outlets.

Williams and Roberts, *2002* (Study #11)

Williams and Roberts (WR) is somewhat more helpful on the link between concentration and regulatory policy, since it examines changes in the radio industry in the six years since the weakening of restrictions on the number of radio stations that could be owned by a single company. The study finds a sharp increase in the concentration over this period. For example, the study finds the four firm concentration ratio **(as** measured by shares of ad revenue) went From less than 65 percent in 1996 to more than 85 percent in 2002 (WR chart 2). WR also find that the number of distinct owners has fallen by **34** percent since the change in ownership rules (Williams and Roberts, 2002, Study **#11, p. 3).**

This decline in owners has been associated with a small decline in the number of distinct formats in large radio markets, while the number of formats has continued to **grow** in smaller markets (Williams and Roberts, Chart **4).** The study also finds evidence that the growth rate in stations has slowed since the 1996 change in rules. Table 5 compares the growth rate in commercial radio stations before and after the rule change in 1996.

Table 5
Annual Growth Rates of Commercial Radio Stations

1996-*2002*	0.9 percent (nationwide)
1980-2000	1.0 percent (ten selected markets)
1980-2000	1.3 percent (nine markets – excludes New York)

Source: Williams **and Roberts, 2002; Roberts et al., 2002, Table 3**.

The study also does not look at comparisons over time. In order to determine the impact of the 1996 rules change, the study should have examined the industry trends prior to 1996 to determine how they were altered by the weakening of rules on concentration. The failure to isolate trends may lead to an understatement or overstatement of the impact of concentration depending on whether radio broadcasts were becoming more or less diverse at the time the new rules were put in place. For example, if the trend had been towards growing diversity prior to 1996, then the impact of concentration on diversity was even larger than the data in Williams et al. indicate, since concentration could then be viewed as responsible for reversing a trend toward increasing diversity.[3]

Brown and Williams, 2002 (Study #4)

Brown and Williams (2002) examines the relationship between radio advertising prices and market concentration. While it finds that the real (inflation adjusted) cost of radio advertising rose by 68 percent after the 1996 repeal of limits on station ownership, it concludes that just 3-4 percentage points of **this** increase can be attributed to growing concentration in the industry. It attributes the rest of the increase in advertising rates to economic growth.

The basis for this assessment is a pair of regressions in which the log of radio ad prices, over the years from 1995 to 2000, was regressed against a series of independent variables including the population of the radio market, per capita income in the radio market, **GDP,** and several measures of concentration in the local and national radio market. The regressions found that the variables measuring concentration had a very small, albeit positive, effect on ad prices. The regressions find that the main factor explaining the rapid rise in the price of radio ads over **this** period was the rise in income over the period (Brown and Williams, p. 1).

The finding that income growth was the main factor behind the sharp surge in ad prices following the relaxation of ownership rules seems implausible on its face. Prior research had found that radio prices had been falling in real terms over the entire period from 1961 to 1994 (Silk, Klein and Bemdt, 2001, Figure 3).[4] This study found that network radio ad prices had fallen an average of **1.27** percent annually over **this** period, while spot radio ad prices had fallen an average of 0.8 percent annually. The economy grew by **202.1** percent over **this** period. If growth explains the increase in ad prices in the years since restrictions on concentration of ownership were removed, then it should have also led to sharp increases in ad prices in the three decades prior to the removal of these rules. The fact that growth was instead associated with falling ad prices over this period indicates that economic growth is probably not the explanation for the rise in ad prices since ownership rules were relaxed.

[3] The study also fails to test directly the extent to which concentration and song diversity coincided. It could have done such a test by using data on market concentration, for example the data on the concentration of advertising revenue in WR, as an independent variable in the regression whose results are shown in Table 4.

[4] Silk, A., L. Klein and E. Berndt. 2001. "Intermedia Substitutability and Market Demand by National Advertisers." NBER Working Paper No. W8624.

from 1980 to 1985 and by 20.5 percent from 1985 to 1990, the growth rate fell to 6.2 percent in the first half of the nineties and to 5.7 percent in the second half. While there is slower growth in the number of broadcast television stations in every category, the falloff is most notable in the case of educational stations. The number of educational television stations grew by 13.4 percent from 1980-85 and by 11.5 percent from 1985 to 1990, it grew by just 6.0 percent in the next five years, and did not grow at all in the years from 1995 to 2000. The drop off in the growth rate, and recent stagnation, in the number of educational stations is the most striking feature of this table. Clearly education has become a less important function of broadcast television in the last decade. Levy et al. does not attempt to provide an explanation for the slower growth in the number of educational television stations, although relaxed regulation presumably played a role.

The studies discussed in this section examined the growth in the number ofoutlets, the diversity of offerings on radio outlets, and the link between concentration in the ownership of radio outlets and ad prices. Three studies provide clear evidence that the growth in the number of media outlets and owners has slowed sharply in the last two decades. One of the studies (WR) shows a clear link between the relaxation of regulations on ownership and a rapid increase in concentration in the industry. This increase in concentration has also been associated with a decline in listeners, a result that is consistent with the theoretical model developed in Cunningham and Alexander.

The other two studies (Roberts et al., 2002 and Levy et al., 2002) were not designed to directly examine the link between changes in regulation and the growth of outlets, but both find evidence that the growth in outlets has slowed sharply in the years when the FCC has weakened regulation. In particular, Levy et al. finds that the slower rate of growth in broadcast television stations was seen most clearly in the case of educational outlets, the number of which actually stopped growing in the most recent period covered in the study.

A fourth study examined in this section (Williams et al., 2002) finds some evidence of an increase in the diversity of songs offered within radio markets in the six years since the relaxation of rules on concentration of ownership, but it also found evidence of a decline in the diversity of songs offered nationwide. This suggests that concentration in radio broadcasting may lead to fewer songs being played on the radio. Unfortunately, it does not examine the trends prior to 1996, *so* it is impossible to determine the extent to which this change marks a break with prior trends.

The fifth study reviewed in this section (Brown and Williams, 2002) examined changes in the price of radio advertisements since 1996. It found that ad prices rose by 68 percentage points more than the overall rate of inflation over this six year period. While the study attributes most of this increase to economic growth rather than concentration, this result is implausible. Other research (Silk, Klein and Berndt, 2001) found that radio ad prices had actually fallen in real terms in the years from 1961 to 1994, even though the economy had enjoyed rapid growth over much of this period. It is not plausible that economic growth suddenly began to push up radio ad prices at the exact moment that the industry became more concentrated.

such as diversity, which are inherently difficult to measure. If some of the studies had attempted to measure the extent to which the commercial interests of the media companies and their advertisers affected the content of their news and entertainment, it could make a better informed decision on the rules in question.

In a similar vein, the FCC studies also neglected to consider *the* extent to which ownership concentration may affect the ability of various interest or political groups to reach a wider public with their views.[5] Specifically, media outlets are likely to reject a single or small package of ads that antagonizes a major advertiser. For example, a fast food chain may threaten to pull advertising from a media outlet that broadcasts an ad from an organization seeking to increase the minimum wage. This is an extremely important issue in a democracy, since the media is the primary means available for any organization to reach a large audience with their views! It is not necessarily the case that greater concentration in the media will increase the ability of large advertisers to use their economic power to prevent opposing voices from being heard. However, it is at least reasonable possibility that the FCC should examine carefully before deciding on these rules.

In conclusion, the FCC studies raise serious questions about the impact of concentration to date on diversity of news and entertainment. They indicate that there is little basis for believing that substitution between types of media will offset any negative effects from concentration in specific medium. They also present evidence that concentration, at least in the case of radio, has been associated with a sharp increase in ad prices. These facts should be weighed carefully by the FCC in its decision of further relaxing rules that restrict concentration.

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[5] This issue is explicitly raised in Yudken and Owens, 2002. Yudken, J. and C. Owens. 2002. "Reply Comments of the American Federation of Labor and Congress of Industrial Organizations, before the Federal Communications Commission, in the Matter of Cross Ownership of Broadcast Stations and Newspapen and Newspaper/Radio Cross-Ownership Waiver Policy." Washington, D.C.: American Federation of Labor and Congress of Industrial Organizations.

[6] It is worth noting that one of the studies (Bush 2002, Study #10) found very little evidence ofsubstitution in advertising between different types of media. This means that if an ad is excluded from television, the possibility of having it presented on radio or in newspapers is not a reasonable alternative.

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